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# **Learning-shaping Crises: A Longitudinal Comparison of Public Personnel Reforms in Italy, 1992-2014**

## **ABSTRACT**

This article analyses the attempts to reform public administration, notably personnel management, in Italy between 1992 and 2014, with a focus on implementation and the period following the multiple crises that have unfolded since 2008. By untangling the policy learning processes between multiple crises, past reform attempts and domestic and European “contexts in motion”, the article finds that efficiency-oriented reforms have floundered regardless of the political color of governments or indeed of the nature - political or technocratic - of the governments. Domestic factors, notably the frequency of government alternation, i.e. government instability, and European pressure have further reinforced the orientation towards single-loop lessons, i.e. the almost exclusive effecting of short-term cost cutting measures.

Keywords: comparative public management; fiscal retrenchment; crisis management; public personnel policy; qualitative analysis; Italy.

## INTRODUCTION

This article aims to investigate the impact of fiscal crisis on policy change. Drawing on the crisis management literature, we define crisis as an “episode of threat and uncertainty, a grave predicament requiring urgent action” which is unexpected or unanticipated (Boin and ‘t Hart 2003, 544). Confronted with the ambiguity that typically marks crises, leaders may adopt fundamentally different postures (Hermann & Dayton 2009), and this implies that crises are occasions for framing contests between actors advocating or opposing policy change (Boin et al. 2009).

Crises can be opportunities for policy change since they delegitimize long-standing policies underpinning the status quo (Keeler 1993). By exposing the inadequacies of the existing system, crises can be exploited by leaders to deliver long-awaited reforms that in normal times are protected by dominant coalitions and sustained by organizational inertia. However, research on crisis management shows that the opportunities for reform in the wake of a crisis are smaller than often thought. The ability to bring about policy change entails a number of functional requirements as leaders need to embrace novel policy ideas and articulate a vision, sell it to diverse audiences and wield power to see it enacted (Boin and ‘t Hart 2003). These requirements make risk-adverse leaders prefer crisis containment to reform, i.e. preserve the status quo in the short-term rather than launch reform that only pays off in the long run. Crises can also be observed as opportunities of policy learning (Stern 1997), both at individual and institutional level. In this perspective, the periods of crisis are a testing ground for lessons learned in previous years, triggering or forestalling further learning and policy change (Deverell 2009; Elliot and Smith 2007), so that policy learning can be seen as mechanism of policy diffusion over time (Shipan and Volden 2012).

We address the crisis' "*change vs status quo*" dilemma by focusing on the fiscal crisis caused by the global financial and then economic crisis since 2008 (Posner and Blondal 2012). We define the fiscal crisis as an unexpected episode of threat and uncertainty that has confronted leaders with the dilemma between the immediate urgency of cutting spending in the short term (crisis containment) and the desirable goal to effect major administrative reform in the long term, also as a way of increasing efficiency and hence the resources for future investments or spending (Hood and Wright 1981; Pollitt 2010). The fiscal crisis under examination was unexpected as it originated from worldwide banking and economic crises (Kickert and Randma-Liiv 2015) and it constituted a threat to existing systems particularly in the South European region where governments faced the possibility of default (Armingeon and Baccaro 2012).

In this article we *probe into* how the learning processes stimulated by successive crises have interacted with Italy's domestic institutional context and with the influence of the European Union. Specifically, we analyze the impact on the post-2008 policy change of the interaction between learning and technocratic governments, government instability, and the pressures for fiscal retrenchment coming from the EU. We focus on Italy for two reasons. First, it is the only case in Southern Europe where the threat of severe fiscal crisis was not unprecedented since the country faced a currency crisis in the period 1992-1994 (Di Mascio et al. 2013; Ongaro 2009). Thus, it is particularly suited for exploring the role of recursive learning processes during each crisis and between the two crises (Elliot and Macpherson 2010; Moynihan 2009). Second, Italy is the only case in Southern Europe where the fiscal crisis led to the formation of a technocrat-led government that could face the fiscal crisis without a concern for the short-term electoral gains so often detectable in party governments.

To preview our main findings, this research shows that policy learning processes have operated in the sense of focusing Italy's response to the fiscal crisis on short-term containment rather than

public management reform. The lessons drawn from the past have probably acted as “prisons” (Brändström et al. 2014), inducing and constraining policy makers to focus their attention only on short-term expenditure reductions. In the field of public personnel management this has meant tough restrictions to recruitment, and therefore expenditure containment has been achieved at the price of excluding from public employment younger and potentially more qualified prospective candidates. The impact of these lessons was strengthened by the domestic institutional context and by European pressure. In spite of its insulation from short-term electoral constraints, a technocratic government chose not to embark on public management reform, even as political instability and the EU’s austerity orientation kept up the pressure for immediate fiscal gains rather than longer-term reform.

The remainder of the article unfolds as follows. The next section presents the research framework. In the following section we outline our methodology. The next two sections are empirical: we first reconstruct learning processes as they unfolded before the 2008 fiscal crisis and then analyze the response to the fiscal crisis triggered by the banking and economic crises since 2008. In the concluding section we place our findings in the context of some of the relevant literature and propose some implications of our study for further comparative research.

## **RESEARCH FRAMEWORK**

A fiscal crisis is likely to produce a variety of responses (Peters et al. 2011). We focus here on “administrative reform policy”, namely the policy that has the deliberate aim of improving the functioning of the public administration. Specifically, for the purpose of this study, the impact of the crisis on administrative reform is assessed in the domain of public personnel policies. A long list of trends in public personnel reform can be observed, although the concrete implementation

varies and generally little data on outcomes are available (Demmke and Moilanen 2010). We adopt a dichotomous classification whereby public personnel policies can be distinguished between reforms aimed at improving the performance of organizations in the public sector (public management reforms) and short term spending cuts with a focus on downsizing (cutbacks).

In doing so, we build on previous studies that focused on the personnel domain as an area that is especially exposed to fiscal retrenchment (Derlien and Peters 2008) which can be achieved by tightening the civil servants' belts in order to reduce spending reductions and/or by implementing civil service reform in order to increase productivity (Pollitt and Bouckaert 2011). This is why public personnel have also been the privileged target of the intervention by actors such as the EU in countries like Italy and Greece (Zahariadis 2013; 2014). In particular, we focus on one dimension of public employment, namely staff size, which has been a core element of the austerity packages adopted in most OECD countries to lower public expenditure beyond wage cuts (Lodge and Hood 2012).

To assess the response to the fiscal crisis, we analyze the nature of the cuts drawing on some of the contemporary cutback management literature (Pollitt 2010; Raudla et al. 2015). These measures can be *transversal* ('cheese slicing'), yielding across-the-board cuts affecting all policy areas regardless of their impact on political priorities. Alternatively, these measures can be *selective*, enabling governments to protect most effective programs from short-term spending control ("strategic prioritization") and/or connect cutback management to broader administrative modernization initiatives aimed at increasing public sector productivity ("efficiency savings").

We focus on public personnel cutbacks as measures that address the actual policy failures revealed by crises (May 1992). At the center of our analysis we put the decision-making process. Even if this process extends throughout the policy cycle, the analysis focuses on decisions made by

the government over the period considered trying to understand the way in which previous decisions interplay with the later ones through policy learning and lead to policy change. Thus the main perspective adopted is that of policy learning at the institutional level under condition of fiscal crisis.

Several different notions of learning have emerged in the policy literature (Bennett and Howlett 1992). We focus on policy learning *qua* model of action (Argyris 1976). In this sense single loop learning is a refinement of established actions to improve performance without changing guiding assumptions or without taking alternative courses of action into account, while double loop learning is a change in the frame of reference and guiding assumptions. Given our focus on fiscal retrenchment, we can equate different types of public personnel cutbacks to specific types of policy learning (Argyris and Schon 1978). Across-the-board cutbacks can be considered as single-loop learning processes with the aim of crisis containment as they do not alter the fundamentals of the administrative system (Levine 1985). Conversely, selective measures imply public management reform and can be considered double-loop learning processes.

Further, we observe policy learning with reference to its outcome distinguishing between lessons distilled and lessons implemented (Bennett and Howlett 1992; Deverell 2009). If a lesson is not carried out to the extent that it alters behavior, it is understood as distilled. If the lesson is drawn and subsequently acted upon, it is understood as implemented.

We also distinguish between inter-crisis and intra-crisis learning (Moynihan 2009). Inter-crisis learning concerns the process of learning in post-crisis period, and is aimed at the prevention of and response to future crises. "Intra-crisis" learning occurs during crises when actors must engage in policymaking within a limited time and under intense pressure.



By developing an analytical case study of the Italian public personnel policies under conditions of successive crises, we aim at generating insights into the impact of three factors on policy learning and policy change: government insulation from electoral pressures, government instability, and the role of the European Union. We preview the possible influences of these factors in turn.

First, party actors know that they are more likely to be vilified when things go wrong in the short term than praised when things go right in the long term, what Hood (2011, p. 10) calls the ‘negativity bias’. Thus concerns about the electoral costs of reforms often lead to reforms being quickly abandoned (Zahariadis 2013). Conversely, the impact of this political myopia can be reduced by electoral insulation (Geddes 1994), which in turn can be brought about by a crisis. In particular, the ordinary concerns with the electoral impact of reform can be expected to play a muted role under a technocratic government (McDonnell and Valbruzzi 2014), such as the one chaired in Italy by Mario Monti, which came into office in late 2011 amidst the political turmoil created by immediate fears of the country’s sovereign default.<sup>1</sup> Inasmuch as insulation from short-term electoral considerations makes reform more feasible, a first proposition can be formulated:

*P1) The formation of a technocratic government is a facilitator of public management reform.*

If technocratic governments may be expected to facilitate reform, frequent government alternation, as occurred in Italy in the period examined in this article (Mele and Ongaro 2014), will likely lead to cost containment as the preferred response to the fiscal crisis. Frequent government alternation may in fact activate a “time compressing effect” (Fleischer 2013), pushing governments towards measures that can be rapidly implemented over those with longer-term payoff. The “time compressing effect” may also indirectly operate on the dynamics of the learning processes, as it can activate the evocation of the historical analogy between the previous fiscal

crisis and the current one. Since crises are immersed in historical sequences, when a new crisis arises the way in which decision-makers respond to it will in part depend on the solutions that actors have given to previous crises, as previous solutions will influence the instruments and the interpretations available to future actors (Haydu 1998; Neustadt and May 1986). Governments will look back to past solutions and use them in crisis management when the historical analogy points to recent events and similarities between the contexts of the two crises are extant (Brändström et al. 2004). Moreover, in the perspective of the garbage can model of policy choice, to a considerable extent policy solutions can be independent from policy problems (Cohen et al. 1972), and this mechanism can be particularly evident when previous solutions are already defined. These conditions apply to Italy, which faced a previous fiscal crisis in the early 1990s in a context of political instability that persisted throughout the subsequent period. In sum, a second proposition is:

*P2) Frequent government alternation is a facilitator of crisis containment through budget cutbacks.*

A final factor potentially affecting the nature of public personnel policies has been the embeddedness of Italy in the European Union. From the early 1990s on a fiscally conservative paradigm has asserted itself in the European Commission as the cornerstone of the EMU project (Jabko 2006). The policy goals to be attained are “sound money” and, connected to it, low government deficits, which are considered the necessary preconditions for economic growth (Bonatti and Fracasso 2013; Howarth and Rommerkirchen 2013). This “culture of stability”, combined with economic research arguing that fiscal retrenchment based on spending cuts rather than tax hikes positively contributes to economic growth and that government debt above a certain threshold stifles economic growth (e.g. Reinhart and Rogoff 2010), has become the foundation of the Commission’s economic worldview over the period of investigation of this study,

and in particular of its position that fiscal austerity is expansionary through its impact on market confidence (Rehn 2013). When the Greek crisis exploded in 2010, threatening contagion to the weaker members of the European Monetary Union, decision makers in the Commission interpreted this event through the lens of the austerity paradigm, and thus as requiring to accelerate spending cuts in the Member States in order to win back the confidence of markets (De Grauwe and Yumei 2013). Thus, administrative reforms have not been sustained by the activation of an “actor certification” mechanism (Dunlop and Radaelli 2013) implying the role of external actors as “teachers of reform” who enjoy the legitimacy needed to validate the claims for reform in domestic contexts. As found by research on the Greek case (Zahariadis 2014), in the context of the sovereign debt crisis, EU institutions, and indeed external creditors, have not certified public management reform, rather they have emphasized spending cuts as the priority response. A final proposition is therefore:

*P3) EU attitudes permeated by the tenets of the austerity paradigm, by failing to provide public management reform certification and by putting pressure on governments to prioritize quick fiscal retrenchment, are a facilitator of prompt crisis containment through cutbacks.*

## METHODOLOGY

Our study draws on twenty-four semi-structured interviews with key experts knowledgeable of the dynamics of the post-2008 crisis in the domain of public employment in Italy (Table 1).

***Table 1. List of interviews***

No.	ROLE	ORGANIZATION	DATE
1	Ministerial adviser	Ministry of Government Programme Implementation	8 October 2012
2	Ministerial adviser	Ministry of Finance	8 October 2012

3	State auditor	Court of Accounts	23 October 2012
4	Senior civil servant	Ministry of Finance	12 November 2012
5	Senior official	Trade Union – Public Sector Division	12 November 2012
6	Senior civil servant	Cabinet Office	27 November 2012
7	Ministerial adviser	Ministry of Government Programme Implementation	27 November 2012
8	Senior civil servant	Ministry of Public Administration	6 December 2012
9	Senior official	ARAN	12 December 2012
10	MP	Chamber of Deputies	4 February 2013
11	Senior official	Senate – Budget Office	5 February 2013
12	Ministerial adviser	Ministry of Public Administration	6 February 2013
13	Senior official	Ministry of Public Administration	22 February 2013
14	Ministerial adviser	Ministry of Government Programme Implementation	22 February 2013
15	Economic adviser	Senate – Budget Office	7 March 2013
16	Senior official	Trade Union – Public Sector Division	16 October 2013
17	Senior manager	Consultancy firm – Public Sector Division	8 November 2013
18	Senior official	Trade Union – Public Sector Division	15 November 2013
19	Senior official	Union of Italian Provinces (UPI)	26 November 2013
20	Senior official	Trade Union – Public Sector Division	27 November 2013
21	Senior manager	Consultancy firm – Public Sector Division	12 December 2013
22	MP	Chamber of Deputies	6 February 2014
23	Senior official	Ministry of Public Administration	21 February 2014
24	Senior official	Ministry of Public Administration	21 February 2014

Challenges to the validity of research posed by the use of soft data have been addressed in several ways. First, the respondents have been selected from a variety of backgrounds: elected officials as well as tenured officials from all the institutions tasked with the planning, implementing, and monitoring of fiscal consolidation measures as well as administrative reforms in Italy (Ministry of Finance, Ministry of Public Administration, Ministry of Government Programme Implementation, Cabinet Office, Parliament, ARAN – National Agency for Negotiation with the Public Sector Unions, Court of Accounts), trade union officials, advisers working in ministerial cabinets and senior managers responsible for the public sector in a major consultancy firm. Second, information from face-to-face interviews was cross-checked with alternative documentary sources, such as reports drawn up by the Ministry of Economy and the Ministry of Public Administration and reports prepared by research institutes. Finally, the interviews had both open- and closed-ended questions so as to add thicker insights into the process of crisis management to the categorical assessment of spending measures enacted in reaction to the crisis. The questionnaire and the set

of alternative documentary sources are available from the authors. The next two sections review the administrative reforms of 1992-2014 period from the perspective of the 2008-2014 intra-crisis learning processes.

In order to understand the role of historical analogy in crisis management and in policy diffusion in the same jurisdiction over time, the first empirical section tracks the administrative reforms which have taken place before the 2008 crisis. We rely on secondary and statutory sources to reconstruct the 1992-1994 fiscal crisis and the following 1995-2008 sequence of policy change in public personnel size definition. The policy learning processes that emerged during those two periods are characterized in terms of single or double loop based on the consideration of their substantive content. Lessons learned are distinguished between distilled or implemented based on the outcomes they have produced in terms of modification of courses of action.

All these processes fall under the rubric of inter-crisis policy learning, since the time perspective adopted focuses on the 2008-2014 fiscal crisis. The second empirical section addresses the lessons learned during 2008-14 by decision-makers looking at previous experiences of coping with the fiscal crisis (1992-94) and administrative reforms (the whole previous period 1992-2008). It then delves into the 2008-2014 intra-crisis learning process: learning that occurred over 2008-14 based on experiences occurred in the same period.

## **THE PATH TO THE 2008 FISCAL CRISIS**

### ***Lessons learnt from the 1992-1994 fiscal crisis***

The administration of public personnel in Italy is based on the distinction between the workforce that is on-paper required for executing the job (notional staff), and the actual one, which is mainly

driven by the amount of resources available to the public employer to hire staff – the former setting a ceiling to recruitment. At the beginning of the 1990s the figures for notional staff were far above the actual staff in most public sector organizations. Thus, the ceiling represented by the notional staff did not operate as a mechanism for containing the expansion of workforce, which was partly driven by patronage (Cassese 1993; Di Mascio 2012). Furthermore, the organization was particularly fragmented so as to multiply the posts classified as ‘managerial’, and a number of administrative careers retained their own rules and wage scales, thus remaining shielded from the general discipline of public employment; finally, dismissals were extremely difficult to effect due to statutory protections.

After the currency crisis that led to the Lira’s expulsion from the European Monetary System in 1992 and the risk of sovereign default, the Amato government was forced to face the problems of the low productivity of public employment and of its excessive size and cost. A measure to halt the growth in size of public employment was the freeze of recruitment (Table 2).

In the aftermath of the corruption scandals that brought down the postwar party system in 1992-1993, the center-left Amato government was succeeded by a technocratic government led by the former President of the Bank of Italy, Carlo Azeglio Ciampi. As a response to systematic overspending, in 1993 the Ciampi government (1993-1994) launched the “privatization” of public employment, which was subjected to the rules of collective bargaining, and thus of private labor law, in order to achieve flexibility in the management of human resources within the public sector (Bordogna and Neri 2011). A two-tier labor contract system was also set up, one at the national level for each sector and an integrative one at the level of each individual administration. A new autonomous agency (ARAN) was tasked with negotiating collective contracts with the unions on a technical and neutral base, while specialized advisory bodies (*Servizi di Controllo Interno*) were

established for assessing organizational performance at the level of each administration, a provision that was meant to usher in a new era of results-based accountability.

However, the implementation of this public management reform generated perverse effects as collective bargaining caused real wages to grow, whilst productivity did not. The salary mass estimated during the bargaining process at the national level was significantly increased by individual administrations, without any return in terms of increased productivity. Furthermore, integrative contracts were not used to link variable components of the wage to performance. Finally, most public employees obtained career progressions without passing any competitive selection. Since top managers' appointments hinged upon political loyalty rather than identified objectives, they were not concerned about the efficient utilization of human resources. By renouncing an autonomous role in the management of human resources, managers left room for the pervasive influence of trade unions.

The Ciampi government also adopted a selective measure directly aimed at curbing public personnel layouts. Public administrations were tasked to carry out estimates of the staff workload every two years, a procedure which was meant to facilitate the determination of the 'proper' notional staff. Based on assessment methods previously approved by the Minister for Public Administration, public sector organizations were supposed to realize massive reorganizations reducing their workforce and rationalizing its distribution among bureaucratic units and levels of career. However, even this less demanding process of public management reform did not translate into effective implementation.

### ***Lessons learnt from the 1995-2008 inter-crisis period***

Two short-lived governments, which did not engage with public personnel reform, followed the Ciampi government: a center-right government (Berlusconi I 1994-1995), and a second technocratic government led by a Bank of Italy senior official, Lamberto Dini (1995-1996). From 1996 on the country entered a period of alternation between center-left and center-right coalitions, both highly fragmented and unstable.

The center-left Prodi I government launched a new wave of administrative reforms aimed at raising productivity by establishing performance evaluation as the main criterion for personnel management. As it had happened for the first wave of reforms, the plans of administrative modernization were thwarted by the politicization of top management and the poor quality of collective bargaining, producing a growth of public employment payroll without productivity gains.

The Prodi government also launched in 1997 a Triennial Plan of Staff Requirement, a tool for reducing the permanent workforce by a fixed percentage (0.5 % in the first year), adopting differentiated measures in different administrations. Administrations gained the opportunity to compensate permanent staff losses with temporary positions. This measure paved the way for a dysfunctional recruitment system, as contracts for these temporary workers were prolonged year after year, strengthening their expectation of being "titularised" (i.e. that they would sooner or later get tenure).

Continued pressure on public accounts pushed in 2001 the center-right Berlusconi II government to re-introduce the hiring freeze, the across-the-board measure adopted by Giuliano Amato in 1992. This measure was reiterated until 2006, but weakened by the provision of derogations authorized on a case by case basis by the government, mostly under the pressures of the unionized temporary workers striving for "titularisation". Derogations were progressively circumscribed to a limited number of public organizations, in part because of the progressive



consolidation of the information system developed by the Ministry of Finance, which entrenched cutback measures in the routines for crisis management. As a result of the progressive consolidation of the freeze of recruitment, between 2003-2007 the tenured workforce decreased by 1.9%, although this drop was largely compensated by the significant increase (+ 7.4%) in temporary workers (Ragioneria Generale dello Stato 2014). However, this drop was not sufficient to avoid the formalization in 2005 by the European Commission of the infringement procedure for breaching the 3% deficit-to-GDP limit prescribed by the Stability and Growth Pact of the EU. The infringement procedure provided impulse for the further reinforcement of the hire freeze as a tool to reduce spending without conflicting with current policies and objectives.

In order to meet public finance targets negotiated at the European level after the infringement proceedings for violation of the Stability and Growth Pact in 2005, the center-left Prodi II government, which was in power in the period immediately preceding the onset of the crisis (2006-2008), launched new measures displaying a mix of across-the-board cuts and selective interventions, mostly re-proposing the therapy adopted by the Prodi I government in 1997, even though it was more specified and decoupled from major plans of administrative modernization (Table 2).

Selective measures included a staff ceiling for ministerial advice offices, which were not to exceed 15 % of the total workforce, and the merger or suppression of local offices of the central government. These selective measures presupposed a complex reorganization which was to be coordinated by a Cabinet Office Mission Unit jointly led by the Ministry for Public Administration, the Ministry of the Economy, and the Interior Ministry; sanctions were designed for non-complying Departments, in the form of a prohibition to recruit. The Centre-Left Government was very keen to engage the trade unions, and it adopted the 'concertation method', based on

stipulating in 2007 a Memorandum of Agreement on Public work and Quality Service with all the most representative trade unions.

However, these measures did not produce any results, as they were reportedly plagued by a range of factors, including: “data manipulation and opportunistic behavior by the target administrations” (Interview, State auditor, 23 October 2012); the fragmentation of the governing coalition (Interview, Ministry of Public Administration senior official, 6 December 2012); the limits of the concertation method itself, at least as practiced on that occasion, which “gave veto power to the trade unions” (Interview, Ministry of Finance senior official, 12 November 2012); and the abrupt termination of the legislature in 2008.

Conversely, across-the-board cuts affected both notional and actual personnel. A transversal cut of the notional staff was carried out in 2006, implementing a fixed replacement rate based on a prefixed percentage of the 2006 terminations. It is notable that one concerted provision forbade resorting to temporary staff, coupled with a program (which soon proved to be lacking the resources for making it sustainable) of gradual “titularisation” of the temporary personnel already in service.

This experience consolidated the appraisal coming from the recipe of the Prodi I government: the choice to mix selective and across-the-board measures as a symbolic attempt to appear attentive to the long term modernization of the bureaucratic apparatus and not only to the short term crisis management. However, in a context marked by political instability, there were scarce chances to implement public management reforms.

Table 2 interprets each of the reported reforms in term of model of action and typology of lessons learnt from the 2008-2014 inter-crises policy learning perspective.

**Table 2. Learning Processes (1992-2007)**

GOVERNMENT	PERIOD	ADMINISTRATIVE REFORM in PUBLIC PERSONNEL	MODEL OF ACTION	OUTCOME
<i>Amato</i>	1992-1994	<b>Actual staff:</b> Freeze of recruitment (Decree Law 333/1992)	Single loop	Implemented
<i>Ciampi</i>	1992-1994	<b>Reform of public employment regime:</b> Introduction of performance management (Legislative decree 29/1993)	Double Loop	Distilled
<i>Ciampi</i>	1992-1994	<b>Reorganization:</b> Introduction of periodical estimates of staff workload (Law 537/1993)	Double Loop	Distilled
<i>Prodi I</i>	1995-2007	<b>Reform of public employment regime:</b> Re-launch of performance management (Legislative decree 80/1998)	Double Loop	Distilled
<i>Prodi I</i>	1995-2007	<b>Reorganization:</b> Introduction of the Triennial Plan of Staff Requirement to reduce the workforce by a fixed percentage (Law 449/1997)	Double Loop	Distilled
<i>Berlusconi II and III</i>	1995-2007	<b>Actual staff:</b> Freeze of recruitment until 2007 but derogations were admitted (Law 448/2001) + Freeze of recruitment extended to regions and local authorities but derogations were admitted (Law 289/2002)	Single loop	First distilled, then progressively implemented
<i>Berlusconi II and III</i>	1995-2007	<b>Notional staff:</b> 5% cut of workforce (Law 311/2004)	Single loop	Implemented
<i>Prodi II</i>	1995-2007	<b>Reorganization:</b> Reform of peripheral offices	Double Loop	Distilled
<i>Prodi II</i>	1995-2007	<b>Actual staff:</b> Introduction of a set replacement rate (Law 296/2006)	Single Loop	Implemented
<i>Prodi II</i>	1995-2007	<b>Notional staff:</b> Cut of notional managerial positions (10% for first and 5% for second level) + Cap for notional staff offices which cannot absorb more than 15% of the total workforce (Law 296/2006)	Single loop	Implemented

## THE RESPONSE TO THE 2008 FISCAL CRISIS: SINGLE LOOP EXPENDITURE CONTAINMENT MEASURES IMPLEMENTED

### *Berlusconi IV government*

The centre-left coalition was sharply divided and could only count on a bare majority, which collapsed in 2008, paving the way to the third electoral success of Silvio Berlusconi and his fourth government. At the beginning of its mandate the Berlusconi IV government attempted to revitalize the implementation of the previous waves of reforms focused on the increase of productivity via the re-launch of NPM tools such as performance management. The modernization effort was driven by the Minister for Public Administration Renato Brunetta, who exploited the persistent legitimacy crisis of the Italian public sector as a leverage point for the implementation of a new comprehensive reform of the public employment regime.

The reform was launched as a crusade against the “*fannulloni*” (slackers) allegedly thriving in the Italian public workforce and it was complemented by measures against absenteeism which reduced sick leave compensation and increased monitoring practices. Performance-related pay was re-instated by means of a forced-ranking logic whereby only one-quarter of civil servants could get the highest bonus, and one quarter would not get any bonus, with a lower bonus to the remaining fifty percent.

The reform was still under way when the effects of the global economic crisis started to be felt, leading policy-makers to prioritize austerity measures which had proved to be effective in previous experiences of crisis-management (Table 3).

The urgent need to get Italy’s ballooning public debt under control made “austerity measures collide with the implementation of the new reform, entirely hollowing out the implementation of performance-related pay” (Interview, ARAN senior official, 12 december 2012). In fact, the freeze

of wages for the 2010-2014 period introduced by the Minister of Finance Giulio Tremonti in 2010 deprived the reform of the economic resources needed for allowing performance-related pay to work.

The deficit reduction strategy was focused solely on the reinforcement of the across-the-board cuts. Negative feedback from the perverse effects of previous reform attempts precluded the re-launch of selective measures: having learned from his previous experiences as minister in 1994 and 2001-04 how difficult it is to implement the reorganization of government as well as performance management in the Italian context marked by political instability, Tremonti deemed the re-launch of these measures too risky for the country's overall fiscal stability.

Therefore, the response devised by the Berlusconi IV government was based on the extension and the reinforcement of the replacement rate system already in place. After setting a cap on staff turnover in 2009 at 10% of employee terminations in 2008, for the period 2010-2013 the reduction of recruitment was set at 20% of the previous year's terminations, a cap to be removed only in subsequent legislative periods. The tightening of the replacement rate was sustained by positive feedback from previous interventions as "its uniformity suits well the current politico-administrative context marked by fragmented governing coalitions incapable of setting priorities" (Interview, Trade Union senior official, 12 November 2012).

Trade unions could not effectively oppose the tightening of the replacement rate as their legitimacy had been severely weakened by Brunetta's campaign against their allegedly excessive influence on the public sector, which led to the split of the largest confederation, the CGIL, from the other two major unions, the CISL and the UIL, the last two maintaining a cooperative relationship with the government. Paradoxically, the learning process started out as double-loop by Brunetta ended up as single loop since the campaign against the trade unions which was meant

to reduce the influence of trade unions over public employment regulations provided leverage for the implementation of across-the-board cuts.

The tightening of the replacement rate, coupled with the pay freeze, was considered by the unions the least painful intervention, since the uniformity of cuts enabled them to preserve organizational cohesion among their different branches. Those to be more harshly hit by the provisions that slashed the budget for fixed-term contracts to 50% of the amount allocated in the year 2009 were the temporary workers, who had a lower unionization rate.

When concerns about the sustainability of the Italian public budget mounted, market sentiment vis-à-vis Italy worsened sharply in the 2011 summer. It is in this context that the ECB, in the persons of then President Jean-Claude Trichet and incoming President Mario Draghi, then at the Bank of Italy, sent a confidential letter to the Berlusconi government to spur it both to implement fiscal retrenchment and to implement a broad set of reforms, including of the public administration and specifically of public personnel policy. Indications for fiscal retrenchment were later confirmed and made more detailed in the joint report to the Eurogroup by the ECB and DG Economic and Financial Affairs in November 2011 in the context of a special surveillance process of Italian reforms decided at the European Council of October 2011 (European Commission 2011).

Consequently, the government adopted a further reinforcement of cuts at the level of both actual and notional personnel. Eventually, however, the incapacity of the Berlusconi government to cope with the worsening economic situation caused the collapse of its majority, paving the way for the Monti government.

### ***Monti and Letta governments (2011-2014)***

When he took office, Mario Monti, a former European Commissioner, was president of Bocconi University in Milan. The Monti government was backed by a very large majority encompassing both Berlusconi's party and the two main opposition parties. The numbers of both actual and notional workforce continued to plunge under the Monti government, which drew up a response focused solely on the repertoire of across-the-board cuts adopted by previous party governments (Table 3).

Despite its technocratic nature, the Monti government did not re-launch administrative reform. The circle of economists gathered around the Prime Minister did sketch a proposal for the reorganization of the state apparatus but this strategy was deemed by policy makers "too sophisticated, and too large to be feasible" in a context marked by political fragmentation and the short time horizon due to the imminence of national elections and the European pressure to meet fiscal targets in the short term (Rome, Democratic Party MP, 6 February 2014).

Indeed, drawing on previous crisis management experience, the limit on the replacement rate was prolonged until the end of 2016 and the resulting reduction of the actual workforce was consolidated by further interventions on notional staff to eventually align it, in most public administrations, with the actual staff: after about a couple of decades the ceiling to recruitment based on notional staff finally became effective, as it eventually tended to coincide with the actual staff. The reduction in the notional staff could be compensated between different offices, within the same or across public administrations. The sanction for non-implementation lay in forbidding further recruitments to the concerned administration. Redundancies would be dealt with through inter-administration mobility. Outright dismissal of public workers was also threatened, though

more as a means to send a symbolic sign of addressing the external critique of public workers “than as a really countenanced course of action” (Rome, Ministry of Finance adviser, 8 October 2012).

The enforcement of the last round of transversal cuts in the notional workforce was impaired by a faltering parliamentary majority and the uncertainty and politicking triggered by the approaching political elections, which occurred in February 2013. By August 2013 such important ministries as Interior, Foreign Affairs, or Justice had not reduced their staff yet. Nonetheless, in the other ministries reductions of notional staff did occur, with cuts of 36% of the top level managerial positions, 45% of the second level and 34% of the public employees between 2007 and 2013. As a result 7,416 of the actual workforce for the ministries considered (118,571 public employees) exceeded the limits imposed by the new notional personnel. The redundancies were much lower than those estimated ex ante by the Monti Government (11,000) and were easily absorbable through early retirement.

At the very end of its mandate, the Monti Government postponed the wicked issue of the temporary workers. Not unexpectedly given the history of personnel management in Italy (for an overview, Ongaro 2011), their contracts were prolonged year after year, strengthening their well-understandable expectation of being ‘titularised’. However, the practice of “titularisation” became less frequent in the 2008-2011 period (only 50,000 out of 310,000 temporary workers switched to a permanent status). In December 2012, the duration of their contracts was prolonged by six month, de facto shifting to the next Government the solution of this thorny problem.

Elections were held in February 2013, and they saw the anti-system Five Star Movement (M5S) gain more than 25% of the votes and become the second single most-voted political party. As M5S refused to cooperate with either the center-left or the center-right, the two mainstream parties



agreed to back a national unity government, headed by Enrico Letta, the deputy secretary of the mainstream center-left party, the Democratic Party. The Letta government only lasted 10 months: following the appointment of the new national secretary of the Democratic Party, Letta was forced to resign in February 2014.

The Letta government, during its brief life from April 2013 to February 2014, first moved the temporary workers' term to December 2013, and then further prolonged it. However, the budget law for 2014 allowed only for a limited amount of permanent positions since it reinforced and prolonged the replacement rate constraint until 2018.

Table 3 interprets each of the reported reforms in term of model of action and typology of lessons learnt from the 2008-2014 intra-crisis policy learning perspective.

**Table 3. Learning Processes (2008-2014)**

GOVERNMENT	PERIOD	ADMINISTRATIVE REFORM in PUBLIC PERSONNEL	MODEL OF ACTION	OUTCOME
<i>Berlusconi IV</i>	2008-2014	<p><b>Actual staff:</b> Reinforcement of the replacement rate (Decree Law 112/2008), Replacement rate reinforced and prolonged until 2014; 50% cut of actual spending for fixed-term contracts (Decree Law 78/2010), Further reinforcement of the replacement rate (Decree Law 98/2011)</p> <p><b>Notional staff:</b> Further cut of notional managerial positions (20% of first and 15% of second level); 10% cut of notional spending for non-managerial personnel (Decree Law 112/2008); Further 10% cut of notional second level managerial positions; Further 10% cut of notional spending for non-managerial personnel; Extension of transversal cuts of notional staff to public bodies and companies (Decree Law 194/2009), Further 10% cut of notional second level managerial positions; Further 10% cut of notional spending for non-managerial personnel (Decree Law 138/2011)</p>	Single loop	<p>Implemented I</p> <p>Implemented</p>
<i>Berlusconi IV</i>	2008-2014	<p><b>Reform of public employment regime:</b> Introduction of a new performance management system; reduction of collective bargaining (Legislative Decree 150/2009); Reduced sick leave compensation and increased monitoring practices (Law 133/2008)</p>	Double Loop	Distilled

<b>Monti</b>	2008-2014	<b><u>Notional staff:</u></b> Further 20% cut of notional first and second level managerial positions; Further 10% cut of notional spending for non-managerial personnel (Decree Law 95/2012)	Single loop	Implemented
<b>Monti</b>	2008-2014	<b><u>Reorganization:</u></b> Reform of peripheral offices	Double Loop	Distilled
<b>Letta</b>	2008-2014	<b><u>Actual staff:</u></b> Replacement rate prolonged until 2018 and extended to public-private companies (Law 147/2013)	Single loop	Implemented

## DISCUSSION AND CONCLUSIONS

As emerged from the empirical analysis, the response to the post-2008 crises has reproduced existing patterns of reducing expenditure via across-the-board cuts. In other words, in a context marked by protracted political instability, previous direct experience with a fiscal crisis, and lack of actor certification of substantive public management reform, spending containment rather than public management reform has been the chosen course of action. The following paragraphs briefly review our findings enfolding the pertinent literature:

PREVIOUS CRISIS EXPERIENCE. Crisis management has been shaped by the effects of previous waves of administrative modernization, which discouraged policy makers from linking austerity measures to any major attempt to revamp the public sector. The response to an earlier episode of fiscal austerity prompted a process of inter-crisis learning characterized by the coexistence and interaction between “single” and “double-loop” lessons (Argyris and Schon 1978). Single- and double-loop lessons during the 1992-1994 intra-crisis and 1995-2007 inter-crisis periods have exhibited different levels of implementation. Single-loop lessons have been progressively implemented as transversal cuts permitted governments to continue existing policies while enabling to cope with the fiscal crisis. Conversely, double-loop lessons have been drawn (distilled) but not implemented. The different inter-crisis level of implementation of the two learning types triggered a process of intra-crisis learning in the midst of the sovereign debt crisis which placed

attention only onto single-loop lessons. Mindful of the implementation gap of previous reforms (Di Mascio et al. 2013; Ongaro and Valotti 2008), the governments that have been in office throughout the post-2008 crises have avoided endangering fiscal consolidation by re-launching selective interventions.

**POLITICAL INSTABILITY.** The “implementation gap” of double-loop lessons and the focus on single-loop learning could be considered the results of lack of time and intense political conflict (May 1992). These features are typical of fragmented coalition governments with short mandates, such as the Italian ones, activating a “time-compressing” effect (Fleischer 2013). Unless specific circumstances materialize (notably highly skilled policy entrepreneurs appropriately positioned in the administrative reform arena), governments under these circumstances are unlikely to engender consensus enough for triggering public management reforms, let alone sustaining this consensus over the time span necessary to institutionalize double-loop lessons (Broekema 2015; Dekker and Hansen 2004).

**TECHNOCRATIC GOVERNMENT.** The role of the technocratic Monti government proved to be different from that expected. The advent of technocratic governments was supposed to favor public management reform because its leaders were less likely to weigh in electoral repercussions of public management reforms purported to yield fruits only in the longer term. Yet, in the context of the quickly unfolding sovereign debt crisis, adverse political consequences were not limited to electoral losses but regarded the Italian membership in the euro area and the stability of the Euro area itself. In these circumstances, the formation of the Monti government had the main effect of providing political support for cutbacks needed to rescue Italy and the eurozone: budget cutbacks became the only politically viable interventions in a context marked by political instability and lack of certification from the EU for more ambitious public management reforms.

EU ATTITUDES. Double-loop learning has not been sustained by the activation of a “certification” mechanism (Dunlop and Radaelli 2013) by external actors who enjoy the legitimacy needed to validate reform in domestic contexts. As in the Greek case (Zahariadis 2013; 2014), in the context of the sovereign debt crisis double-loop learning under the conditionality of external creditors has not occurred. This finding reflects the shift in European governance towards immediate measures to reduce spending over long-term modernization reforms. In the context of the fear of financial contagion from weaker countries, the Commission has emphasized the achievement of precise quantitative targets on a strict temporal schedule (Caporaso et al. 2014, Copeland and Jones 2014), despite the constant reminder of the need for structural reforms (which, it may well be assumed, should encompass also the development of public administration and cannot be confined to labor market reforms and other interventions geared at ameliorating the functioning of the markets). Hence, in the 2008-2015 fiscal crisis the external pressure of the European Commission has buttressed the effecting of single-loop learning processes.

POLICY RESULTS. The spending cuts have been successful in their own terms, as they kept the government payroll under control (Table 4). Most savings have been achieved through a combination of ever tighter replacement rates and cuts to temporary jobs, which brought down the number of tenured employees and temporary workers over 2007-2013.

**Table 4: Size and features of public employment**

<b>SIZE OF PUBLIC EMPLOYMENT</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Number of tenured public employees	3.125.140	3.145.951	3.109.111	3.065.431	3.080.667	3.037.269	3.029.270
Number of temporary workers	304.126	290.858	267.095	250.266	203.120	201.698	203.684
<b>COMPOSITION OF PUBLIC EMPLOYMENT</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Public employees' average age	46,11	46,83	46,87	47,49	47,58	48,07	48,71
Public employees' average length of	16,96	17,22	17,45	17,32	17,23	18,13	18,16

service							
<b>PUBLIC SECTOR EXPENDITURE</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total expenditure for tenured public employees (million of €)</b>	155.320	165.350	166.352	164.033	162.625	157.928	155.904

*Source: Ragioneria Generale dello Stato (2014)*

Yet, the sequential nature of cheese-slicing (Raudla 2013) imprisoned policy-makers, who have not been able to take into account the cumulated effects of across-the-board cuts (see Brändström et al. 2004 on the notion of “prison”). Since the cuts took place in several rounds, efforts were devoted to adjust spending between the rounds without taking into account the effects of more than two decades of cuts on the profile of public employment, which suffered from the failure to recruit new, fresh energies. Moreover, the measures to reduce personnel spending have contributed to creating “second class” public employees – the temporary ones condemned to an indefinite stay in that condition (if they could continue to work for the public sector at all).

At another level of effects, the sequence of crises reduced the influence of trade unions on public personnel policy in Italy, much alike what happened in a number of other European countries (Bach and Bordogna 2013). Public sector unions have traditionally been able to extract concessions from the governments of the day (Pulignano and Baccaro 2011). However, our study shows that in a context of crisis, the corporatist linkages between unions and parties in government get questioned by disaffected citizens pressurized by austerity policies and hence less lenient towards forms of corporatist participation of organized interests in the policy of public personnel. Consequently, the government’s unilateral power to determine terms and conditions of employment was strengthened. However, our study also highlights that the weakness of public sector trade unions has translated into weakened accountability on issues other than those related to expenditure curbing, thus indirectly favoring single loop learning.

ANALYTICAL GENERALIZATIONS. Finally, two limited analytical generalizations may tentatively be outlined from the case study. Technocratic governments instated under conditions of fiscal crisis are not in themselves sufficient condition to lead to major public management reform. The time compression generated by a short mandate facilitates resorting to available, ready-made solutions and historical analogy (the search for patterns that had already worked). Coupled with the lack of external actor certification for major public management reforms, this is likely conducive to a pattern of response to the fiscal crisis characterized by across-the-board cuts rather than in-depth reforming.

Second, previous responses to crises may lead to a pattern whereby single-loop lessons are progressively implemented, since across-the-board cuts enable the pursuit of existing policies while coping satisfactorily enough with the fiscal crisis (satisficing decision-making pattern), whilst double-loop lessons are distilled but not implemented, engendering an overall pattern of response to crisis without substantive administrative modernization and reform of public management.

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<sup>1</sup>Although the concept of technocratic governments is contested, with this term we here refer to a government in which all major decisions are not made by elected party officials (though these may be influential in decision-making), policy is not deliberated within parties which then act cohesively to enact it, and the highest officials (ministers, prime ministers) are not recruited from political parties (McDonnell and Valbruzzi 2014).

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